

45

STANDING COMMITTEE ON FINANCE (2011-2012)

FIFTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Action taken by the Government on the recommendations contained in the Thirty-fourth Report of the Standing Committee on Finance on Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue)]

FORTY-FIFTH REPORT



LOK SABHA SECRETARIAT
NEW DELHI

December, 2011 / Agrahayana, 1933 (Saka)

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Thirty-fourth Report of the Standing Committee on Finance on
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Finance (Department of Revenue)]*

*Presented to Lok Sabha on 22 December, 2011
Laid in Rajya Sabha on 22 December, 2011*



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December, 2011/Agrahayana, 1933 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON FINANCE
(2011-2012)

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Shri Shivkumar Udasi Chanabasappa
3. Shri Jayant Chaudhary
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5. Shri Bhakta Charan Das
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30. Dr. K.V.P. Ramachandra Rao
31. Shri Yogendra P. Trivedi

SECRETARIAT

- | | | |
|---------------------------------|---|-------------------------|
| 1. Shri A.K. Singh | — | <i>Joint Secretary</i> |
| 2. Shri R.K. Jain | — | <i>Director</i> |
| 3. Shri Ramkumar Suryanarayanan | — | <i>Deputy Secretary</i> |

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Forty-fifth Report on action taken by Government on the recommendations contained in the Thirty-fourth Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue).

2. The Thirty-fourth Report (15th Lok Sabha) was presented to the Hon'ble Speaker on 11 July, 2011 and presented to Lok Sabha/laid in Rajya Sabha on 2 August, 2011. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 27 September, 2011.

3. The Committee considered and adopted this report at their sitting held on 19 December, 2011.

4. An analysis of action taken by Government on the recommendations contained in the Thirty-fourth Report of the Committee is given in the Appendix.

5. For facility of reference, observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
19 December, 2011

29 Aগ্রহায়ণ, 1933 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Thirty-fourth Report (Fifteenth Lok Sabha) on Demands for Grants (2011-2012) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha/Laid in Rajya Sabha on 2nd August, 2011.

2. The Action Taken Notes have been received from the Government in respect of all the 15 recommendations contained in the Report. These have been analyzed and categorized as follows:—

- (i) Recommendations/Observations that have been accepted by the Government:

Recommendation Nos. 1, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15

(Chapter II) (Total 12)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation No. NIL

(Chapter III) (Total NIL)

- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

Recommendation No. 2, 4 and 5

(Chapter IV) (Total 3)

- (iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

Recommendation Nos. NIL

(Chapter V) (Total NIL)

3. The Committee desire that the replies to the recommendations contained in Chapter I may be furnished to them expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

Analysis of Expenditure Trend in Grant No. 42 – Direct Taxes

Recommendation (Para No. 2)

5. While observing that out of BE of Rs. 275 crore, sanctioned under the Head 'Information Technology', the expenditure till December, 2010 is Rs. 96.16 crore only, the Committee had recommended that the existing system of budget formulation for computerization projects and follow up/monitoring of the projects leave much to be desired, warranting a comprehensive review and reappraisal of the projects for their timely completion and gainful utilisation of funds for the intended purposes.

6. The Ministry in their action taken reply have stated as follows:—

“The recommendations and observations of the Committee have been noted for future compliance. Every effort is being made to ensure even pacing of expenditure and meeting the monthly/quarterly targets by holding periodic reviews so that financial discipline is followed.”

7. The Committee are constrained to note that the reply of the Ministry is silent or evasive on the main concern expressed by the Committee on the need for comprehensive review and reappraisal of the projects under the Head 'Information Technology' for their timely completion. The reply of the Ministry also does not specify the present position of completion of projects. The Committee take a serious view of the matter as the Ministry should have furnished complete reply to all the specific points raised in their recommendation. As information technology is an area which can provide impetus to the technology upgradation in the department, the Committee, while reiterating their earlier recommendation, desire that the expenditure on IT projects may be closely monitored by the Ministry, while ensuring that the budget allocated on IT is fully utilized in time. The Committee also desire to be apprised of the details of the projects so far completed, review of the pending projects, if any done, result of the efforts made for timely completion of the projects and monitoring mechanism in place to ensure effective utilisation of funds allocated so far in this regard.

Systems and Data Management

Recommendation (Para No. 3)

8. While expressing their serious concern on the Ministry's lackadaisical approach towards completion of computerization projects in CBEC, despite incurring huge expenditure in the preceding few years, the Committee had desired that a dedicated mechanism be put in place for planning, coordination and timely completion of various computerisation projects in CBEC. Procedural or operational hurdles, if any, should be resolved expeditiously at the highest level of the Department.

9. The Ministry in their action taken reply have Stated as follows:—

“As regards mechanisms for planning and coordination:

- (i) A dedicated Programme Management Unit (PMU) was approved by the Ministry in July 2010 and has been set up by CBEC. Its tasks include monitoring and coordination of CBEC's computerization projects.
- (ii) Ministry of Finance has advised examination of the possibility of setting up a Special Purpose Vehicle (SPV) to manage automation in CBEC. The high level Committee set up under the Chairmanship of Secretary (Revenue) to examine the recommendations of TAGUP has advised CBEC to propose a proper structure for the SPV for CBEC's IT projects in which operational freedom would be available despite government controls. The proposal is under active consideration of CBEC.”

10. While reiterating their earlier recommendation for putting in place a dedicated mechanism for monitoring the completion of computerisation projects in CBEC, the Committee take note of the setting up of a Programme Management Unit (PMU) for the purpose, the Committee are of the opinion that PMU is not enough and the purpose will be served only after a SPV is set up. The Committee urge the Government to expedite all the activities for setting up a Special Purpose Vehicle (SPV) to manage automation in CBEC's IT projects and apprise the Committee of the progress made so far in this regard.

Collection of Direct Taxes

Recommendation (Para No. 4)

11. Upon noticing that the Ministry had not maintained the data with regard to the tax contribution separately from different categories

such as salary/business/profession etc., the Committee had desired the Ministry to maintain tax collection figures of different categories separately so that the trends of collection in each category would be easily discernable for effecting changes in rates and exemptions and improving compliance.

12. The Ministry in their action taken reply have stated that the accounting of revenue is done by the office of Principal Chief Controller of Accounts. The matter has been communicated to the Principal CCA for examination at their end.

13. **This is yet another example where the Ministry have furnished casual reply to a specific recommendation. No mention has been made regarding measures taken or proposed to be taken for maintaining tax collection figures of different categories separately. The Committee deprecate the lackadaisical approach adopted by the Ministry and their ineffective monitoring for maintaining important details. In the opinion of the Committee, lack of maintaining category-wise data is a serious impediment in formulating a strategy to increase the revenue collections from these categories. The Committee, therefore, recommend that the Government should make optimum use of computerization and devise mechanism to maintain necessary data at a centralized level.**

Recommendation (Para No. 5)

14. Having observed that not only the post-assessment collection of direct taxes has declined, but even the pre-assessment or self-assessment collections, the Committee had desired that the Department of Revenue should study/analyse these trends and the reasons for the same and take necessary corrective measures both statutory as well as administrative. The Committee had also urged the Department of Revenue to deploy their resources efficiently so that post-assessment income tax collections by way of scrutiny, survey, etc. register a substantial increase.

15. The Ministry in their action taken reply have stated as follows:—

“CBDT

- (i) The observations of the Committee regarding self-assessment tax (in pre-assessment collection) and post-assessment collection have been considered. The collection figures are transmitted by the Office of Principal CCA and are subject to revision and inter-head modifications till finalisation.

The figures submitted earlier have since been updated for FY 2010-11 and are given below:—

(Rs. in crore)

F.Y.	Pre-Assessment			Post-Assessment		Total	Refund	Net
	TDS	Adv. Tax	Self. Assessment Tax	Regular	Others#			
2007-08	104741	158121	21125	25720	45907	355614	41284	314330
2008-09	128230	143332	30779	21337	49237	372915	39097	333818
2009-10	145736	173417	32507	33274	50230	435164	57101	378063
2010-11*	211403	182311	34885	44499	46413	519511	73441	446070

* Figures are provisional.

Others include figures of Surcharge, Primary and Secondary and Higher Education Cess, other Direct Taxes, other receipts, etc.

- (ii) From the above table, it is seen that there is increase in tax collection in absolute terms in respect of TDS, advance tax, self-assessment tax (under the head pre-assessment) and regular assessment (under the head post-assessment).
- (iii) The comparatively lesser increase in respect of self-assessment tax is attributed to the fact that presently emphasis is to collect direct taxes during the financial year itself by way of advance tax, TDS, TCS, etc. on the principle 'pay as you earn'. This is substantiated by the fact that TDS collection has increased from Rs. 104,741 crore in the financial year 2007-08 to Rs. 211,403 crore in the financial year 2010-11. Similarly, the collection from advance tax has increased from Rs. 158,121 crore to Rs. 182,311 crore during the same period. Overall pre-assessment collection has also shown growth rate of 16.31% and 21.68% during financial year 2009-10 and 2010-11 respectively as against overall growth in net collection at 13.23% and 18% respectively.
- (iv) It is submitted that the observations about post-assessment collection made by the Committee is in respect of sub-head 'others' only. The post-assessment collection consists of 'collection from regular assessment' and 'others'. It is evident from the table above that collection from regular assessment has been growing steadily. The growth rate of collection under the head 'regular' during post-recession period *i.e.* FY 2009-10 and FY 2010-11 was 55.94% and 33.73% respectively. Thus the observations made by the Committee that the

administrative resources deployed are not getting adequately reflected in the collection of post-assessment taxes and other observations flowing there from are not borne out from these facts.

- (v) In respect of policy initiative to deal with issue of exorbitant demands/non-maintainable assessments, it is stated that a scheme of Dispute Resolution Panel (DRP) was introduced by way of Legislative provisions of section 144C of the Income Tax Act, 1961 with effect from 01.04.2009. Under this scheme in case of eligible assessee, the demand is not raised till draft assessment order prepared by the Assessing Officer is examined and cleared by DRP after hearing the objection of the taxpayer. The DRP is a collegium of three Commissioners of Income Tax. It is expected that this measure would in long run lead to reduction in exorbitant demands being raised."

16. The Committee note from the updated figures for FY 2010-11, as furnished by the Ministry, that the growth rate of collection under the Head 'Regular' which was 55.94% during the financial year 2009-10 has again decreased to 33.73% during the FY 2010-11. In respect of post-assessment collection under the Sub-Head 'Others', including figures of surcharge, primary and secondary and higher education cess, other direct taxes, other receipts, etc., which has been showing increase in collections from FY 2007-08 to 2009-10 has also decreased during the FY 2010-11. This reinforced the view of the Committee that the Department's efforts till now, to augment post-assessment collection, has not yielded significantly higher revenue. The Committee, therefore, reiterate their earlier recommendation that the Income Tax Department should augment their enforcement efforts to increase their collection of post-assessment taxes.

Revenue foregone

Recommendation (Para No. 9)

17. Having observed that Study Group constituted for undertaking a comprehensive review on the desirability of tax/duty exemptions to SEZs has been unable to proceed in the matter because of non-receipt of data required for the study from the Department of Commerce. The Committee had, therefore, expected that this matter may be taken up at appropriate level of the Government, so that inter-departmental wrangling over fundamental policy matters are ironed out. The Committee had also desired to be apprised about the findings of the Study Group and the decisions taken thereupon.

18. The Ministry in their action taken reply have stated as follows:—

“In this regard, it is stated that a three tier institutional mechanism already exists to resolve inter-departmental difference of opinion. These are Unit Approval Committee (UAC), Board of Approval (BoA) and the Empowered Group of Ministers (EGoM) at the apex level. At the field level, the Unit Approval Committee (UAC) functions. The UAC is headed by the Development Commissioner and comprises as members, *inter-alia*, Commissioner of Central Excise and Customs and Commissioner of Income Tax. The powers and functions of UAC are listed in Section-14 of the SEZ Act. The next level of administrative structure is the Board of Approval (BoA) at the ministry level. BoA is presently headed by the Commerce Secretary and has members from the CBEC and CBDT. The duties and powers of the BoA are enumerated in Section-9 of the SEZ Act. Both the UAC and BoA are to decide matters by a general consensus of the members present. In case the UAC is unable to decide any matter by a general consensus, such matters stand referred to the BoA. Similarly on matters where consensus is not reached in BoA, the matter can be escalated to the Empowered Group of Ministers (EGoM).”

19. The Committee find the reply furnished by the Ministry to be rather general and non-contextual. They would therefore, reiterate that they should be apprised about the findings of the Study Group on SEZs and action taken thereon within one month.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Analysis of Expenditure Trend in Grant No. 42 – Direct Taxes

Recommendation (Serial No. 1)

The Committee's examination of Grant No. 42 – direct taxes has revealed that till 31 December, 2010 only about 50% or less expenditure has been incurred in the year 2010-11 under several heads of the Grant, despite norms stipulated by the Ministry that not more than $33\frac{1}{3}\%$ will be spent in the last quarter. It means that the remaining expenditure would have to be squeezed in three months only. The Committee deprecate such a casual approach of the Ministry towards spending of funds during the last quarter of the year under the vital sections of the Grant. Such large scale expenditure in the last quarter of the year despite stipulated ceilings, in the opinion of the Committee, clearly shows not only lack of financial discipline and accountability but also indifference to the Ministry's own norms. Rush of expenditure just before the fiscal end or erratic spending for the rest of the year would also render the budgetary process itself meaningless and the schemes/programmes on which money is sought to be spent weak, unattended and infructuous. As the Ministry of Finance, being the nodal Ministry, is expected to set standards for other Ministries to follow, the Committee, would expect them to show greater financial discipline and responsibility by evenly laying out expenditure, for which quarterly expenditure targets may be fixed and review meetings held to ensure expenditure monitoring and financial discipline. The Committee desire that only in exceptional circumstances, to be certified by the Head of the Department, should any deviation be made.

Reply of the Government

The recommendations and observations of the Committee have been noted for future compliance. Every effort is being made to ensure even pacing of expenditure by meeting the monthly/quarterly targets by holding periodic reviews so that the financial discipline is followed.

It is submitted that during the year 2010-11, permission of Secretary (Expenditure) was obtained to relax the 33% ceiling under Grant No. 42—Direct Taxes.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Systems and Data Management

Recommendation (Serial No. 3)

The Committee's examination of this Head has revealed that Budget Estimates were revised upward during the year 2011-12, despite decrease in Revised Estimates during the year 2010. The reasons adduced by the Ministry for such upward revision of BE are that some of the amount in respect of different stages of implementation of consolidation project of computerization in CBEC, which was payable during 2010-11, could not be paid due to procedural formalities. The Committee are unhappy to note that in spite of their recommendation in their 12th Report (15th Lok Sabha) the CBEC has not taken effective steps to maintain centrally the requisite data. The Committee find that during the period 2008-09 to 2010-11, total amount of Rs. 398.81 crore was budgeted under this Head with the actual expenditure being Rs. 427.95 crore; but the results achieved leave much to be desired. It is obvious that the efforts of the Government towards computerization of tax machinery in CBEC has slackened considerably and undertaken in a piecemeal and desultory manner, causing long and interminable delays, inspite of large amount of funds having been sanctioned and spent during the last 3 years. While expressing their serious concern on the Ministry's lackadaisical approach towards completion of computerization projects in CBEC, despite incurring huge expenditure in the preceding few years, the Committee desire that a dedicated mechanism be put in place for planning, coordination and timely completion of various computerisation projects in CBEC. Procedural or operational hurdles, if any, should be resolved expeditiously at the highest level of the Department.

Reply by the Government

CBEC

CBEC's IT Consolidation Project was approved by the Cabinet Committee on Economic Affairs (CCEA) and conveyed *vide* minutes dated 06.12.2007. The approved time-frame for implementation was 24 months from the above date *i.e.* by 05.12.2009. There has not been any delay in the implementation of the IT Consolidation Project and all the projects

have been implemented within the stipulated period, except in locations which are affected by force majeure and other technical, administrative or local issues. Although provisions for staggered payment are in-built in the contracts, payments have not been made fully due to various procedural formalities and non-compliance of the terms and conditions of the contracts by the vendors.

The major components of the Consolidation project are towards building infrastructure for CBEC for porting Customs (ICES v.1.5, ICEGATE, and RMS), Central Excise and Service Tax (ACES) applications.

The total expenditure approved by CCEA was Rs. 598.97 crore for implementation and maintenance of the projects over a five-year period. The expenditure so far has been about Rs. 365 crore.

The implementation plan for these projects is incorporated in the contracts. The current status of the various components/sub-projects of IT Consolidation Project is given in the Table below:—

Sl.No.	Project	Status
1.	Data Centre Space and WAN Project	Implementation completed. The project is under support/maintenance since September 2009.
2.	Systems Integration Project	Implementation completed. The project is under support/maintenance since September 2009.
3.	LAN Project	Implementation completed. The project is under support/maintenance since September 2009.
4.	Data Warehousing Project	Implementation completed. The project is under support/maintenance since September 2010.
5.	ACES Project	Implementation completed. The project is under support/maintenance.
6.	Project Monitoring for WAN/LAN implementation	Implementation completed.
7.	Appointment of Consultant for technical advice	This is an ongoing consultancy project. The current approval is upto Jan. 2012.

A brief account of the projects is as under:—

(i) Systems Integration Project

Contract with the vendor was signed in March 2008. The primary data centre, business continuity site and disaster

recovery site have been put in place and made functional. Applications have been ported on the servers installed in the Data Centres. The project was implemented by March 2009 and is in maintenance and support phase since 1.9.2009.

In July, 2011, the Directorate of Systems, CBEC was accorded the ISO 27001:2005 certification after a rigorous process of audit conducted by STQC. ISO/IEC 27001 is a set of formal specifications that is intended to bring information security under explicit management control. CBEC is among the first of the Indian Government Departments to have been formally audited and certified for ISO 27001.

(ii) WAN Project

The WAN contract was signed with the vendor on 9th March 2007. Under the WAN contract, 539 buildings were covered. 506 sites were delivered on 28th Aug. 2009 when the implementation phase was closed. The project is now under maintenance and support.

(iii) LAN Project

Contract was signed with the vendor in March 2008. LAN project covers 1210 buildings housing about 3000 offices and spread in more than 250 cities in India. LAN implementation has been completed in 1162 buildings. At the remaining buildings, there are some implementation issues. The implementation was completed in September 2009 and the project is in the support phase since then.

(iv) Data warehouse project

Contract was signed with the vendor in October 2007 and has been implemented. The project is under maintenance and support phase since October 2010.

(v) ACES

ACES was rolled out in December, 2008 in LTU, Bengaluru and thereafter, it was rolled out in phases in other locations and the national roll-out was completed on 23rd March, 2009. This is a Mission Mode Project (MMP) of the Government of India under the National e-Governance Plan (NeGP), being monitored by the Cabinet Secretary on a monthly basis. In DG Systems the project is being closely monitored under the

Mission Leader, which is of the rank of Additional Director-General. From 01.04.2010, e-filing was made mandatory for assesseees paying central excise duty/service tax over Rs. 10.00 lakh. However, from 01.10.2011, e-filing will be mandatory for all users. This would ensure complete data capture in e-mode and help in properly monitoring the tax administration.

As regards mechanisms for planning and coordination:—

- (i) A dedicated Programme Management Unit (PMU) was approved by the Ministry in July 2010 and has been set up by CBEC. Its tasks include monitoring and coordination of CBEC's computerization projects.
- (ii) Ministry of Finance has advised examination of the possibility of setting up a Special Purpose Vehicle (SPV) to manage automation in CBEC. The high level Committee set up under the Chairmanship of Secretary (Revenue) to examine the recommendations of TAGUP has advised CBEC to propose a proper structure for the SPV for CBEC's IT projects in which operational freedom would be available despite Government controls. The proposal is under active consideration of CBEC.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Recommendation (Serial No. 6)

As regards widening of tax base, the Committee note that the number of new assesseees added had declined in 2009-10 as compared to the previous years. While seeking to justify this decline, the Ministry have Stated that the new assesseees added during any Financial Year may be affected by several factors like slow down in economic growth, threshold limit for filing income tax returns etc. As regards the tax collected from new assesseees for the last three years category-wise, the Ministry have merely Stated that they have not maintained any such data separately. On this issue, the Committee had specifically asked the Department in their earlier Report on the subject to make efforts to augment the number of new assesseees so that the tax base becomes widely dispersed, reflecting the increase in per capita income as also the diversified nature of our economy. In their action taken reply, the Ministry had submitted that suitable legislative amendments/changes in rules and software modifications are required to capture the relevant data, which are under consideration. The Committee would like the Department of Revenue to

recognize the declining rate of accretion to assessee base and expedite the procedural and enforcement measures to bring new assessee into the tax net, in order to expanding the tax base. The Committee would also reiterate that the Department should also widen their data base to include more aspects and categories for better monitoring of income tax operations.

Reply by the Government

CBDT

In respect of widening of tax base, the major factor influencing the growth of assessee base is the basic exemption limit. The basic exemption limit which is about 4-5 times the per capita income gives a high threshold for levy of tax. Further, every year the limit is being raised to account for inflation etc. This contributes significantly towards slower growth in tax base.

From Legislative perspective emphasis on proper reporting and monitoring of information and capturing of data has been continued. The Income Tax Rules have been amended to incorporate new category of transactions where quoting of PAN has been made compulsory. This will lead to more focused capturing of data and its monitoring. The new categories of transaction are:—

- (i) “Payments in cash in connection with travel” now includes payment in cash to an authorized person as defined in clause (c) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999).
- (ii) Making an application to any banking company to which the Banking Regulations Act, 1949, applies or to any other company or institution for issue of a debit card.
- (iii) Payment of an amount aggregating fifty thousand rupees or more in a year as life insurance premium to an insurer as defined in clause (9) of section 2 of the Insurance Act, 1938.
- (iv) Payment to a dealer, of an amount of five lakh rupees or more at any one time or against a bill for an amount of five lakh rupees or more, for purchase of bullion or jewellery.
- (v) Widening of Tax Base is a compliance function. The field formation is asked to increase the tax base through Central Action Plan. Some software tools are required to capture information along with legislative changes. Non-filers and

stop-filers could be identified by reconciling TDS/AIR/ CIB information with RETURN database. However, these may require certain tools for data mining, analysis of data etc. Presently, process for appointment of Consultant for Data Warehousing and Business Intelligence Project is in progress.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Collection of Indirect Taxes

Recommendation (Serial No. 7)

It is seen from the figures provided by the Ministry of Finance (Department of Revenue) that the percentage growth in collection of indirect taxes during 2010-11 from customs and central excise has shown an increase of 63%, with achievement of 94% of the target set and 35.7%, with achievement of only 74% of the target respectively. The Committee are surprised that targets fixed by the Department have not been achieved in the indirect tax collections and it also has not reached the pre-meltdown levels. Besides, it is also noteworthy that the growth in the collection from service tax is only 20.6% and the effective tax rate in percentage terms in service sector as a whole is also seen to be only 23.77%, as compared to 23.40% for the manufacturing sector, even as the service sector has been steadily growing and contributing a lot more as percentage of the GDP. The Committee note that according to the Economic Survey 2010-11, the share of services in India's GDP at Factor Cost (current prices) is 63.4% in the year 2009-10. The Committee, therefore, are of the view that the service sector with such immense/potential has not been contributing by way of taxes in proportion to its share of the GDP. The Committee would therefore, recommend that the Ministry should chalk out an action plan so that the potential of service sector gets commensurately reflected in its fiscal contribution as well.

Reply by the Government

CBEC

According to the Economic Survey 2010-11, the share of services in India's GDP at factor cost (at current prices) is 55.2% in the year 2009-10. If construction is also included, then the share of services increases to 63.4% in the year 2009-10. At first glance, it appears that services sector which constitutes 63.4% of GDP is contributing less

revenue when compared to manufacturing sector. The reasons are as follows:—

- In the GDP estimates, trade, hotels and restaurants are taken as part of 'services' GDP (constituting 16.3%); State governments are taxing these sectors by imposing Value Added Tax. Service tax is not levied on these sectors so far. In the Finance Act, 2011, service tax has been introduced on the service element of 'restaurant and hotels'.
- In the GDP estimates, community, social and personal services, which include public administration and Defence (constituting 14.4% of GDP) is also taken as a part of services GDP. These services are not subject to service tax.
- Similarly 'railways', 'ownership of dwellings' and several other infrastructure sectors are also outside the scope of service tax at present.

Composition of GDP as % (Quick estimates by CSO)

Sector	2009-10
Trade	14.9
Hotels and restaurants	1.4
Railways	1.0
Storage, Communication, transport other than railways	6.8
Financial services	5.4
Real estate, ownership of dwellings, and business services	11.4
Community, social and personal including public administration and Defence	14.4
Construction	8.2
Total services	63.4

Source: Economic Survey 2010-11.

Though services constitute 63% of GDP, current service tax revenue arises out of only a part of that 63%. A large portion of services sector is not subject to service tax. Besides, a sizeable portion of services are provided by unorganized and informal sectors which are below the threshold levels of service tax.

However, efforts are being made to augment service tax revenue, at the policy level, along the following lines:

Current service tax regime is based on a selective approach, broadly known as 'positive list' which specifies the services, which will be subject to service tax. This approach is prone to litigation. Therefore, feasibility of introduction of a 'comprehensive approach' (described as negative list based approach) to service tax is being examined. Under the comprehensive approach, barring small list of services which will be outside the tax net, all other services will be subject to tax. In his Budget speech before the parliament, Hon'ble FM has called for a public debate on the issue. It is expected that a negative list based, comprehensive approach will lead to an increase in service tax collection.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Revenue Foregone

Recommendation (Serial No. 8)

From the figures made available to the Committee, it is revealed that the Revenue Foregone for corporate tax assesseees has sharply increased from Rs. 72,881 crore in 2009-10 to Rs. 88,263 crore in 2010-11. Further, as a percentage of actual tax collection also, it is noted that revenue foregone has quite significantly increased. Particularly, the revenue foregone in respect of customs duties was as high as Rs. 1,95,288 crores in 2009-10 with actual tax collection in that year being only Rs. 85,847 crore; while in 2010-11, customs revenue foregone was equally high to the tune of Rs. 1,74,418 crore as compared to actual tax collection of Rs. 1,08,071 crore. The Committee are not convinced with the Ministry's justification that higher incomes of corporate tax payers, higher depreciation and various incentives/deductions/exemptions are factors responsible for this trend. Further, the Committee also observe a regressive trend with respect to collection of corporate taxes; as for instance, there were only 692 companies in the slab of profit before tax of Rs. 100-500 crore. On the other hand, the number of companies with profit before tax slab of 'less than zero' was 1,49,283, slab of 'zero' tax 28,851 and slab of 'Rs. 0-1 crore' tax 2,23,888. The Committee thus can only conclude from these figures that the extent of revenue foregone together with the corporate tax collection trends point towards a regressive tax regime. The Committee would, therefore, recommend that the Government should review their exemptions/incentives policy for the corporate sector as a whole so that the effective tax yield from corporates significantly improves. It goes without saying that any tax regime in democratic societies like ours should stay progressive with higher incomes generating proportionately higher effective tax yields.

Reply of the Government

CBDT

Annexure-12 of the Receipt Budget 2011-12, table no. 5 gives the figures of revenue foregone for corporate taxpayers. The revenue foregone for the corporate tax payers is Rs. 72,881 crore and Rs. 88,263 crore for the year 2009-10 and 2010-11 respectively. It may be pointed out that while figures for 2009-10 are based on details from electronic tax returns filed upto the due date of filing of tax returns for Assessment Year 2010-11, the figures for 2010-11 are projections based on 2009-10 actuals. The actuals for 2010-11 will be reflected in the revenue foregone statement for 2012-13. In the previous two years actual revenue foregone has been found to be less than the estimated one.

Further, as far as corporation tax is concerned, the amount of revenue foregone has actually decreased as a percentage of actual corporation tax collection. The figures are as under:—

Year	Corporation tax Collection (Actuals) (Rs. in crore)	Revenue Foregone in case of Corporate taxpayers (Rs. in crore)	Revenue Foregone as a percentage of Actual Corporate tax collection (in %)
2008-09	2,13,395	66,901	31.35
2009-10	2,44,725	72,881	29.78
2010-11	2,99,386	88,263 (estimated)	29.48

In the case of tax on companies, the tax rate is 30% (plus applicable surcharge in case of companies with income in excess of Rs. 1 crore and applicable cess). Thus regressive taxation of companies (*i.e.* companies with higher income suffering less proportionate tax on their incomes as compared to the companies with lower income), comes from tax incentives which lower taxable income, *i.e.*, primarily profit linked deductions.

The following measures have been taken to moderate this:—

- (i) Under the Income-tax Act, 1961(Act), the policy thrust has been not to extend the area or scope or the sunset date of profit linked exemptions. This should moderate the revenue forgone on account of such tax concession and exemption once the profit linked deduction get phased out through the respective sunset clauses.

- (ii) To further moderate the revenue foregone due to incentives, Minimum Alternate Tax (MAT) is levied on book profits of corporate tax payers. The rate of MAT has been progressively increased to 18.5% for income of the Financial Year 2011-12.
- (iii) In the current Budget for 2011-12, the benefits of profit linked export incentives which were available under sections 10A and 10B of the Act has been allowed to be phased out after 31-03-2011.
- (iv) Further, *vide* Finance Act, 2011, exemption from payment of MAT available to units operating in Special Economic Zone(SEZ) and to SEZ developers as well as exemption from payment of Dividend Distribution Tax (DDT) available to SEZ developers has been withdrawn.

The effective tax rate for all companies is increasing over the previous years. The figures in this regard are as under:—

Year	Effective Tax Rate across the entire corporate tax payers (as %)
2007-08	22.24
2008-09	22.78
2009-10	23.53

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Recommendation (Serial No. 9)

The revenue foregone on account of Export Promotion Concessions other than SEZs has been stated to be Rs. 39,388 crores in 2009-10, which has increased to 49,976 crores in 2010-11, out of which revenue foregone on account of SEZs has been shown as Rs. 3,987 crores in 2009-10 which has more than doubled to Rs. 8,614 crore in 2010-11. The Ministry have explained this increase in revenue foregone on the increase in exports and profits reported by SEZ units. On this subject, the Committee had recommended in their 12th Report (15th Lok Sabha) that the Ministry of Finance (Department of Revenue) should set up a Study Group to undertake a comprehensive review on the desirability of tax/duty exemptions to SEZs, which will bring out the costs of exemptions *vis-à-vis* the benefits. In their action taken reply, the Ministry have informed that a Study Group has already been set up to undertake a review of

the exemptions scheme and functioning of the SEZs. However, this Group has been unable to proceed in the matter because of non-receipt of data required for the study from the Department of Commerce. Whatever data was received subsequently was also found to have several inconsistencies. The Committee are astonished that such a conflicting situation can develop in basic approach between the two Departments of Government, namely Department of Revenue and Department of Commerce, who have evidently failed to coordinate with each other and arrive at an acceptable agreement with regard to policy changes required for SEZs. The Committee would, therefore, like this matter to be taken up at appropriate level of the Government, so that inter-departmental wrangling over fundamental policy matters are ironed out. The Committee would also like to be apprised about the findings of the Study Group and the decisions taken thereupon.

Reply by the Government

CBEC

The Committee has, *inter-alia*, observed that the issue of lack of co-ordination between DoR and DoC may be taken up at appropriate level of Government, so that inter-departmental wrangling over fundamental policy matters are ironed out. In this regard, it is Stated that a three tier institutional mechanism already exists to resolve inter departmental difference of opinion. These are Unit Approval Committee (UAC), Board of Approval (BoA) and the Empowered Group of Ministers (EGoM) at the apex level. At the field level, the Unit Approval Committee (UAC) functions. The UAC is headed by the Development Commissioner and comprises as members, *inter-alia*, Commissioner of Central Excise and Customs and Commissioner of Income Tax. The powers and functions of UAC are listed in Section 14 of the SEZ Act. The next level of administrative structure is the Board of Approval (BoA) at the ministry level. BoA is presently headed by the Commerce Secretary and has members from the CBEC and CBDT. The duties and powers of the BoA are enumerated in Section 9 of the SEZ Act. Both the UAC and BoA are to decide matters by a general consensus of the members present. In case the UAC is unable to decide any matter by a general consensus, such matters stand referred to the BoA. Similarly on matters where consensus is not reached in BoA, the matter can be escalated to the Empowered Group of Ministers (EGoM).

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Unaccounted Money

Recommendation (Serial No. 10)

On the recommendation of the Committee, the Government has agreed to get a fresh study conducted on unaccounted income/wealth both inside and outside the country, bringing out the nature of activities engendering money laundering and its ramifications on national security. The Committee desire that they be apprised about the findings of the study and the decisions taken thereupon at the earliest. The Committee would like to emphasise that the Department of Revenue should re-orient their efforts and focus their energies on the specific sectors/channels/categories responsible for generating unaccounted money within the country and take policy and enforcement measures both to prevent generation as well as to detect and unearth the money/wealth. The Tax Intelligence Network should be fully deployed and utilized for this purpose by establishing a platform for sharing of information with other enforcement organizations.

Reply of the Government

CBDT

The Government has commissioned a study to estimate the quantum of unaccounted income/wealth inside and outside the country and its ramifications on national security on the basis of the recommendations of the Standing Committee on Finance. The study will be conducted separately by three Government Institutes namely, National Institute of Public Finance and Policy (NIPFP), National Institute of Financial Management (NIFM) and the National Council for Applied Economic Research (NCAER). Memorandums of Understanding (MoUs) have been signed with the Institutes on 21.03.2011. The study is expected to be completed in a period of 18 months *i.e.* by September 2012.

There is shortage of man-power and budgetary resources in the Investigation Directorates of the Income Tax Department. Therefore, to optimally utilize the given resources, the sectors of the economy prone to high tax-evasion are under automatic focus for investigation through surveys, search and seizure operations to yield substantial results.

As regards sharing of information with other enforcement agencies, it is Stated that regular meetings of nodal officers of Investigation Directorates, Enforcement Directorate, DRI takes place under the Regional Economic Intelligence Councils (REICs) where the intelligence and other

inputs are shared among the agencies. The REICs function under the supervision of Central Economic Intelligence Bureau (CEIB).

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Recommendation (Serial No. 11)

With regard to the funds illegally stashed abroad, the Committee have been informed that information is collected on case to case basis through the Foreign Tax and Tax Research (FT and TR) Division of CBDT to verify the source of funds being invested from outside India. The Government has also prioritized countries/jurisdictions with which it wants to enter into Tax Information Exchange Agreements (TIEAs) so that information regarding trade mispricing or secret bank accounts or ownership information or any other information can be obtained from such countries/jurisdictions. TIEAs are being negotiated with these countries/jurisdictions since there are no Double Taxation Avoidance Agreements (DTAAs) with them. Negotiation of TIEAs with 12 countries/jurisdictions have been completed which are Argentina, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Guernsey, Isle of Man, Jersey, Marshall Islands, Monaco and Saint Kitts and Nevis. Out of these, Cabinet approval has been obtained in 9 cases and TIEAs have been signed with five jurisdictions (Bahamas, Bermuda, British Virgin Islands, Cayman Islands and Isle of Man). The Committee have also been informed in this regard that the Income Tax Overseas Units set up for this purpose are required to assist the Indian Authorities in negotiation of Double Tax Avoidance Agreements, exchange of information etc. The Committee desire that they be apprised of the results achieved by these Units by way of number of cases detected and action taken thereon. The Committee are of the view that legislative framework alone is not enough because tax evaders may keep shifting their operations. The Government must therefore use diplomatic pressure particularly on smaller nations for eliciting the requisite information. The Committee would also recommend that the Double Tax Avoidance Agreements should also be constantly reviewed in the light of inputs received from these Units as well as other enforcement agencies.

Reply of the Government

CBDT

- (a) At present, only two Income Tax Overseas Units (ITOUs), namely, at Mauritius and Singapore are operational. The following areas of work are assigned to the ITOUs:—
 - (i) Monitor DTAA related issues;

- (ii) Expedite the exchange of information by the Competent Authorities of these countries as requested by the Competent Authority in India;
 - (iii) Maintain liaison with various Departments of the respective countries especially Income Tax Department, Registrar of Companies, Department of Banking Services and Administrators of Financial Services;
 - (iv) Maintain liaison with the investors investing into India from these countries and impart information on domestic laws of India to foreign investors.
- (b) The ITOU at Mauritius took the following initiatives in the last one year:—
- (i) Facilitated the process of exchange of information by expediting the requests with Mauritius Revenue Authority. More than 50 cases of exchange of information requests have been handled and the First Secretary met the Mauritius Revenue Authorities personally and expedited the process.
 - (ii) Closely monitoring the Media reports in Mauritius with regard to India-Mauritius tax treaty and assisting in providing inputs for review of the DTAC.
- (c) The ITOU at Singapore took the following initiatives in the last one year:—
- (i) Expedite the exchange of information in the cases referred by the Assessing Officers in India to Singapore by coordinating with the tax authorities regularly. About 20 cases of exchange of information relating to Singapore are being expedited with Singapore authorities.
 - (ii) The existing DTAA does not provide for exchange of information on bank accounts. ITOU took up this matter and co-ordinated the renegotiation of DTAA between India and Singapore for amending the Article on 'Exchange of Information' to internationally accepted standards information including information on bank accounts through an amending Protocol. As a result, the Protocol to the DTAA was signed by both countries on 24th June, 2011 and has entered into force on 1st September, 2011. The other DTAA issues with Singapore are under review.

- (iii) Assisting the High Commission of India in making efforts to promote India as investment destination for the investors based in Singapore. The First Secretary participated effectively in various events for this purpose to clarify tax related matters.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl., dated 27 September, 2011]

Tax Revenues raised but not realized

Recommendation (Serial No. 12)

The Committee are astonished to find that huge amount of tax revenue to the tune of Rs. 51,296 crore is pending realization for a period ranging between 1 year to 10 years and the same is not under any dispute either. Although the Ministry have sought to assure the Committee that the Department has been making efforts to recover the tax dues and necessary instructions are issued from time to time including guidelines to deal with stay petitions of outstanding demands, it seems obvious that these efforts have not yielded the desired results. The Committee further observe that under indirect taxes another Rs. 8,346 crore, which is not under any dispute, is pending for realization. As regards the reasons for non-recovery of such dues, the Ministry have routinely submitted that this information is being collected from the field formations. The Committee are not able to accept such a routine and cursory reply, which only suggests that the Ministry is not very serious about recovering pending revenue dues, even when these are not under any dispute. It appears that the statutory powers vested in the authorities are not being exercised to recover dues. The Committee would, therefore, recommend that the Ministry of Finance (Department of Revenue) should immediately formulate a time bound Action Plan in this regard by constituting a special cell, if required, so that all the revenue dues which are not disputed in any way are realised within a period of 6 months. The Committee may be apprised about the action taken and the outcomes achieved in this regard.

Reply of the Government

CBDT

- (i) The Committee has conveyed displeasure on non-recovery of the taxes raised but not realized and more particularly the 'demand not under dispute'. These recommendations/ observations have already been communicated to the field

authorities for taking necessary action. It is submitted that the department is taking all out efforts to make recovery of taxes from arrear demand.

- (ii) Regarding reasons for non-recovery of demand not under dispute, it is submitted that demand not under dispute is largely non-recoverable due to several reasons such as assessee not traceable, no assets/inadequate assets for recovery, company in liquidation, demand under installment etc. Comprehensive measures have been taken to analyse the reasons and monitor recovery in all such cases. The field formations have been asked to carefully look into each such case and use the information available in the departmental database and also take assistance of other organizations to locate the assets and make recovery.
- (iii) The Government is conscious of the importance of recovery out of outstanding tax demand. All possible measures are being taken to expedite the recovery, including that Stated above. During the current Financial Year, an amount of Rs. 10,000 crore (approx.) has been recovered till 31st August, 2011 as against the recovery of Rs. 12000 crore (approx.) each in the entire year 2010-11 and 2009-10 and Rs. 10000 crore (approx.) in the year 2008-09.

CBEC

The updated position of arrears of indirect tax revenue for the year 2011-12 (as on 30.6.2011) is as below:—

(Rs. in crore)

Year	Total arrears	Amount under dispute			Amount not under dispute		
		Stayed	Res-trained arrears (BIFR/ DRT/ OL/CO)	Total	Recoverable	Non-recoverable	Total
Central Excise	33177.63	13192.08	9041.4	22233.48	9794.3	1149.85	10944.15
Customs	9711.92	2562.91	2727.9	5290.81	3863.79	557.32	4421.11
Service Tax	16587.55	6591.61	5912.61	12504.22	3982.61	100.72	4083.33
Total	59477.10	22346.60	17681.91	40028.51	17640.70	1807.89	19448.59

From the above table, it may be seen that out of total arrears of indirect taxes of Rs. 59477.10 crore, there are arrears of Rs. 22346.6 crore, which have been stayed by the Courts and the arrears amounting to Rs. 17681.9 crore have been restrained by other legal bodies, such as, Board of Industrial Finance and Reconstruction (BIFR)/Debt Recovery Tribunal (DRT)/Official Liquidator (OL). It may also be noted that as on 30.6.2011, arrears amounting to Rs. 17640 crore are total arrears which can be recovered by the authorities under the Department.

The Department is constantly monitoring the realization of indirect tax arrears and the actual recovery of indirect tax arrears *vis-a-vis* the annual target fixed for recovery of arrears shows that during the last three years the actual recovery has exceeded the annual target, as may be seen from the following table:—

Year	Arrear target	Actual recovery	Recovery as % over of target
2007-08	3000	5035	168
2008-09	3250	4932	152
2009-10	4000	4386	110
2010-11	3250	6065	186
2011-12 (up to 30.6.2011)	3600	1410.87	39

Main reasons for not realizing the tax revenue, are:—

- (i) Pendency of decisions on stay applications by Appellate Authorities.
- (ii) Arrears recovery stayed by various Appellate Authorities and Courts.
- (iii) Defaulters not traceable.
- (iv) Some units under BIFR.
- (v) Cases pending with official liquidators.

In pursuance of the recommendations of the Standing Committee on Finance, the Board has set out a broad action plan for a multi-pronged action for realisation/liquidation of revenue arrears, which envisages the following:—

- (i) In respect of revenue arrears stayed by courts/CESTAT or locked-up in litigation.

- Intensify efforts at seeking vacation of court orders.
 - Seek early redressal of court matters involving substantial amount of revenue (over one crore), filing of early hearing applications and pursuing the same vigorously.
 - Earnest and active follow-up in matters pending before BIFR, DRT or Official Liquidator.
- (ii) In respect of revenue arrears free from encumbrances.
- Speedy implementation of favourable decisions passed by courts/Tribunal for realisation of arrears/all outstanding dues.
 - Quick recourse to provisions of Section 11 of the Central Excise Act and initiation of appropriate action under the Customs (Attachment of Property of Defaulters for Recovery of Government Dues) Rules.
 - Recovery of government dues from sums outstanding against the assessee elsewhere within the formation or outside in other Zones.

Apart from specific course of action proposed above, the formations have also been advised to take the following further steps in the matter.

- In cases where either no stay has been granted or the stay granted has since lapsed, swift action be taken for recovery of dues. Database in this regard should be constantly updated and kept ready for prompt action.
- Constituting dedicated teams for identification of assets of the defaulter from third party sources like Income Tax, Banks, Trade Associations, Police/Transport/Postal Authorities, Registrar of Companies etc. and appropriate action taken for attaching the identified properties/assets and their timely disposal.
- Reviving of Arrears Recovery Cell in each Commissionerate for a meaningful impact.
- Expeditious action for disposal of cases fit for write-off.

The Government has already set up a Tax Arrears Recovery Unit (TAR) with a view to co-ordinate, facilitate, monitor and oversee the efforts of the Customs and Central Excise field formations towards recovery of arrears. Periodical instructions are issued to the field formations to intensify their efforts towards recovery of realizable arrears.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl., dated 27 September, 2011]

Position of Assessment

Recommendation (Serial No. 13)

It is seen from available records that the pendency of scrutiny assessments in income tax increased from 45.7% in 2005-06 to 50.7% in 2009-10. The Ministry have tried to explain such a pendency on shortage of assessing officers. In this regard, the Committee in their 2nd Report (15th Lok Sabha) had asked the Income Tax Department to arrest the trend of declining percentage of scrutiny assessments, if necessary, by increasing the number of Assessing Officers. In their action taken reply, the Ministry have submitted that the selection of cases for scrutiny and their assessment is an ongoing process and that the issue of deployment of more manpower will be dealt with by way of cadre review of the Indian Revenue Service. The Ministry have also informed that targets for scrutiny assessments as suggested by the Committee have also been included in their action plan. The infrastructure is also Stated to have been recently augmented by way of comprehensive computerisation. The Committee would recommend that the Income Tax Department must not only minimize the pendency of scrutiny assessment cases but also take up more cases for scrutiny, keeping in view the increasing number of returns being filed. As the assessee base widens and the tax workload expands, it is necessary that the Income Tax Department fully equips itself for larger scrutiny work.

Reply of the Government

CBDT

- (i) To minimize the pendency of scrutiny assessments, for the financial year 2011-12, number of cases selected for scrutiny has been kept within reasonable limit. This is expected to create just sufficient workload for the assessing officers so that pendency does not mount.

- (ii) It is submitted that more cases can be taken up for scrutiny only if more number of officers are deployed for assessment duties. It has been experienced in the past that if without increasing the number of assessing officers, more cases are selected for scrutiny, the figures of pending scrutiny cases increases on year to year basis and it also compromises quality of assessment. Presently, the Income tax Department is facing an acute shortage of officers as well as other employees. Against a total sanctioned strength of 57,793 the working strength of the Income tax Department as on 31.3.2011 was 41462. No worthwhile purpose shall be served by picking more number of cases for scrutiny unless these vacancies are filled up.
- (iii) The CBDT is taking necessary measures for equipping itself for larger scrutiny work. The Cadre restructuring proposal of the Income tax Department is still under examination by Department of Personnel and Training.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Refund Cases and interest paid on refunds

Recommendation (Serial No. 14)

Another disquieting matter which has engaged the attention of the Committee relates to large pendency of refund cases and huge interest outgo on that account. The Committee are shocked to find that 42.2 lakh returns of income in which refund was claimed were pending processing as on 31st December, 2010. This included returns of income filed during the Financial Year 2009-10 and 2010-11 as well. Further, an amount as high as Rs. 5,800 crore was paid as interest on refunds in 2008-09 and Rs. 4,700 crore in 2009-10. According to the Department, they have been receiving more tax returns than the processing capacity of the Department. They have sought to assure the Committee that they have been taking steps to reverse the situation. The Committee are astonished to find that in spite of such large pendency and outgo of interest, the Department have not maintained necessary data such as the number of pending cases above Rs. 1 lakh, the number of small cases involving amount of Rs. 100 or so, the oldest case pending for refund settlement, and the number of cases where refunds are issued beyond statutory period and quantum of interest involved therein. On this issue, the Committee had recommended in their 2nd Report (15th Lok Sabha) that the culpability

of the income tax officials should be fixed unhesitatingly in the matter. In their action taken reply, the Ministry have generally submitted that effective checks and balances are applied on the functioning of the Assessing Officer. The Committee, while reiterating their earlier recommendation for fixing accountability, would once again stress that the Department should recognize that settlement of refunds has become a chronic problem confronting the Department, which besides causing hardship to taxpayers, has also resulted in avoidable loss of revenue by way of interest outgo. The Committee recommend that the Department should set up a Special Monitoring Cell at the level of the Board to ensure that refund claims whether electronically or otherwise are settled within the stipulated period of four months. Any deviation from this should be viewed strictly and explanation called for from the concerned officials. The interest rate on refunds may also be reduced so as to be pegged at the level of bank rate with a view to disincentivising careless and inflated payment of self-assessment/advance tax.

Reply of the Government

CBDT

- (i) It is submitted that return filing is seasonal in nature. Spikes in number of returns filed are seen in the (i) *month of due date of filing the return of Income* or (ii) *last month of the year in which the return can be filed without any penalty* or (iii) *last month in which the Return of a particular AY can be validly filed*. Thus returns are not received in a uniform manner throughout the year. Further, number of refund cases is also going up due to collection of taxes through TDS mechanism as more and more types of payments are now being brought into the purview of TDS and strengthening of TDS administration. Pendency of 42.2 lakh refund cases as on 31-12-2010 should also be seen in the light of these facts.
- (ii) It is further submitted that as per Income tax Act, a return of income can be processed one year from the end of the financial year in which the return is furnished. However, the Department has committed to improve tax payer service by way of reduction of time to process returns of income especially those claiming refunds.
- (iii) Besides, addressing the deficiencies in the procedural aspects of the refund issuance were already under consideration of the Income Tax Department through large-scale technological

interventions and Business Process Re-engineering with a view to eliminate bottlenecks and to create systems to reduce human interface. As a result during the past decade the Income Tax Department has undergone large scale transformation and has decisively moved towards a more efficient e-governance regime. Large scale computerization, Software development for Income Tax applications, Promotion of e-filing of Returns, Processing of the returns (both e-filed and manually filed) at Centralized Processing back Offices or CPCs, issuance of Refunds, electronically or through cheques, by a Refund Banker are some of these measures.

The Table below shows the rapid progress made in this regard by way of higher disposal of refund cases during the last Financial Year:—

Financial year	No. of refunds encashed
2007-08	48.08 lakh
2008-09	45.37 lakh
2009-10	48.84 lakh
2010-11	75.44 lakh

- (iv) The CBDT also launched a special drive to dispose all refunds cases on top priority. The latest statistics shows the success of these efforts and as on 31st May 2011, only about 6.75 lakh refund returns were pending.
- (v) On the issue of outgo of interest u/s 244A on refunds, it is mentioned that as per the statutory provisions such interest is payable from 1st April of the Assessment Year to the date of processing of return of income. Refunds are mostly on account of excess prepaid taxes paid during the FY in question. Due date of filing return falls on 31st July (Individual and other non-auditable assesseees) and 30th September (All Corporate and all auditable assesseees) of the following FY. Thus, interest payment is inescapable in all cases at least for the period from 1st April of the Assessment Year to the date of filing of return of income and thereafter, till the return of income is processed. However the various administrative measures taken by the Department as narrated above, will reduce the time in which a return claiming refund is processed after being filed. Already, refund returns, if e-filed are

processed within three-four months of its filing. This will have a positive impact on the interest paid u/s 244A on refunds.

- (vi) As Stated above, as per the Income Tax Act, 1961, a return of income can be processed within one year from the end of the Financial Year in which the return is furnished. Thus, statute allows time of 12 months or more during which the return of income may be processed and refund due (if any) issued. The Board, however, has advised the field formation to expeditiously process the returns of income claiming refund and desires that the process be completed within a period of 6-9 months from the end of the month in which return of income is filed. To oversee the quicker processing of such returns of income, a Special Monitoring Cell to monitor the progress of disposal of refund cases at the level of the Board has been constituted.
- (vii) *Vide* Taxation Laws (Amendment) Act, 2003, the interest rate for refund had been reduced from 9% per annum to 6% per annum with effect from 08-09-2003. The present interest rate for refund is much lower than the interest rate offered by the banks and financial institutions for term deposits and therefore does not incentivise excess payment of self-assessment/advance-tax by the taxpayers. Therefore there is no proposal to revisit the present interest rate structure for refunds.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Recommendation (Serial No. 15)

While concluding their examination of the subject, the Committee would like to point out that both the Boards under the Department of Revenue, namely CBDT and CBEC as well as their field formations require to get their act together in so far as computerization, networking and creation and maintenance of data base is concerned. The Committee's observations and recommendations notwithstanding, the Department of Revenue and the two Boards in question have not been able to provide crucial information to the Committee on key aspects of their functioning due to non-maintenance of appropriate database. The Committee are at a loss to understand as to how the Department is able to function effectively and monitor their operations without critical database. The

Committee would, therefore, urge upon the Department of Revenue to oversee and closely monitor creation and maintenance of requisite data base and report to the Committee on the progress made.

Reply of the Government

CBDT

The Government is conscious of the need of creation and maintenance of a comprehensive database which will be useful for analysis. The CBDT has recently taken a decision to appoint the Director General of Income Tax (Logistics) as the single custodian of statistical reports. A new MIS report is in the process of being rolled out for collecting information from different functional areas on a periodic basis.

It is further submitted that the recommendation of the Committee for creating and maintaining a comprehensive database has been accepted by the Government and all steps are being taken to implement the recommendation. Improvement and changes in developing software in computerization is a continuous process and its ambit is consistently being widened to make it more useful to the Department as per its needs. This being a technical aspect, requires experts from outside sources. The Department will require time to create and stabilize such a system for the needed feedback and analysis.

CBEC

As regards Central Excise and Service tax data are concerned, in response to the observations of the Committee in the 12th Report, it was reported that initially, ACES was rolled out on a voluntary basis, and *w.e.f.* 1.04.2010, e-filing was made mandatory for assesseees paying central excise duty/service tax over Rs. 10 lakh but unless all the activities in ACES were made mandatory for all assesseees, the reports as desired by the Standing Committee could not be generated. However, CBEC has now decided that e-filing would be mandatory for all ACES users *w.e.f.* 1.10.2011. This is expected to ensure capturing of transactional data in e-mode and help in properly monitoring the tax administration.

As regards Customs data, all the transaction data in respect of imports and exports are being captured in the recently upgraded Customs application (ICES 1.5).

CBEC has also implemented the Data Warehouse Project by creating a centralized database for reporting/data mining.

These steps would greatly improve the availability of the requisite database centrally as well as at the local level.

CBEC has, thus, initiated a number of steps to put in place a dedicated mechanism for overseeing the creation and maintenance of the requisite database as directed by the Hon'ble Committee.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE
DO NOT DESIRE TO PURSUE IN VIEW OF THE
GOVERNMENT'S REPLIES

- NIL -

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Analysis of Expenditure Trend in Grant No. 42 – Direct Taxes

Recommendation (Serial No. 2)

The Committee are surprised to note that out of BE of Rs. 275 crore, sanctioned under the Head 'Information Technology', the expenditure till December, 2010 is Rs. 96.16 crore only. The Ministry have attributed their failure in realistic spending of the funds to non-completion of some of the projects of computerization from procedural/administrative angle, timely implementation of which has been repeatedly emphasized by the Committee. The Committee expected the Ministry to anticipate the procedural/administrative constraints and addressing the same well in time. The Committee would again emphasize that the existing system of budget formulation for computerization projects and follow up/monitoring of the projects leave much to be desired, warranting a comprehensive review and reappraisal of the projects for their timely completion and gainful utilisation of funds for the intended purposes.

Reply of the Government

The recommendations and observations of the Committee have been noted for future compliance. Every effort is being made to ensure even pacing of expenditure and meeting the monthly/quarterly targets by holding periodic reviews so that financial discipline is followed.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Collection of Direct Taxes

Recommendation (Serial No. 4)

With regard to collection of direct taxes, the information furnished by the Ministry indicate that the percentage increase in personal income tax was 9.2% in 2008-09, 10.61% in 2009-10 which again declined to 9.44%

in 2010-11. On the other hand, corporate income tax declined to 10.61% in 2008-09 and marginally increased to 14.68% in 2009-10, while registering an increase of 22.25% in 2010-11. The number of corporate assesseees is stated to have marginally increased to 3.7 lakh in the year 2009-10 from 3.27 lakh in 2008-09. The Committee thus find that after the global melt down period, the increase in tax collections has been gradual and not commensurate with the growth in the corporate sector and rising personal incomes in the post-recession period. The Committee would, therefore, like the Ministry to analyse the reasons for the lukewarm trends, instead of gloating over marginal increases in the direct tax collections in absolute terms. When the Committee sought the break-up of tax contribution separately from different categories such as salary/business/profession etc. the Ministry have stated that such data with reference to the sources of income have not been maintained by them. The Committee would, therefore, like the Ministry to maintain tax collection figures of different categories separately so that the trends of collection in each category would be easily discernible for effecting changes in rates and exemptions and improving compliance.

Reply of the Government

CBDT

- (i) It is submitted that during post-recession period from 2009-10 to 2010-11, the direct tax collections have exceeded the budget estimates of the respective years. In the financial year 2009-10, the collections were 102.18% of BE and 97.69% of RE. In the financial year 2010-11, the direct tax collections were 103.74% of the BE and 100.01% of RE. The main reasons for gradual increase in collection of personal income tax during FY 2009-10 and 2010-11 are—(a) rationalization of TDS rates and modified higher threshold limit for TDS on payment under various provisions of the Act, (b) raising of threshold limit of basic exemption in the case of individuals, (c) introduction of sec. 80CCF permitting additional deduction of Rs. 20,000 on investment in Infrastructure Bond since FY 2010-11.
- (ii) The Committee has asked the Ministry to maintain tax collection figures of different categories such as salary/business/profession etc. separately so that the trends of collection in each category would be easily discernible for effecting changes in rates and exemptions and improving compliance. It is stated that the accounting of revenue is done by the office of Principal Chief Controller of Accounts.

The matter has been communicated to the Principal CCA for examination at their end.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

Recommendation (Serial No. 5)

The Committee find from the data made available that the Self-Assessment Tax which had witnessed an increase of Rs. 9,654 crore during the year 2008-09 showed an increase of only Rs. 6,310 crore during the two years from 2009-10 to 2010-11. The post-assessment collection which had increased to Rs. 5,457 crore during 2007-08 could register an increase of only Rs. 902 crore during the period 2008-09 to 2009-10. Surprisingly, during the year 2010-11, it in fact showed a decrease of Rs. 7,410 crore. The Committee are surprised that not only has the post-assessment collection of direct taxes declined, but even the pre-assessment or self-assessment collections, which should have shown an increasing trend due to post-recession recovery in the economy, have also not made a significant mark. Such a trend particularly in pre-assessment collections clearly indicates the loosening of the grip of the Department, which has failed to ensure that pre-assessment/self-assessment tax is fully collected. The Committee desire that the Department of Revenue should study/analyse these trends and the reasons for the same and take necessary corrective measures both statutory as well as administrative. The Committee would also like to point out in this regard that the decreasing trend in post-assessment collections can only suggest that the efforts made by the Department and the administrative resources deployed are not getting adequately reflected in the collection of post-assessment taxes. It also indicates that exorbitant demands/assessments may lead to non-maintainability of demands, while causing only harassment to genuine taxpayers. Therefore, the Committee would like the Department of Revenue to ensure that such harassment due to inflated/non-maintainable demands does not arise. At the same time, they should also deploy their resources efficiently so that post-assessment income tax collections by way of scrutiny, survey, etc. register a substantial increase.

Reply of the Government

CBDT

- (i) The observations of the Committee regarding self-assessment tax (in pre-assessment collection) and post-assessment collection have been considered. The collection figures are transmitted by the Office of Principal CCA and are subject

to revision and inter-head modifications till finalisation. The figures submitted earlier have since been updated for FY 2010-11 and are given below:—

(Rs. in crore)

F.Y.	Pre-Assessment			Post-Assessment		Total	Refund	Net
	TDS	Adv. Tax	Self-Assessment Tax	Regular	Others#			
2007-08	104741	158121	21125	25720	45907	355614	41284	314330
2008-09	128230	143332	30779	21337	49237	372915	39097	333818
2009-10	145736	173417	32507	33274	50230	435164	57101	378063
2010-11*	211403	182311	34885	44499	46413	519511	73441	446070

* Figures are provisional

Others include figures of Surcharge, Primary and Secondary and Higher Education Cess, other Direct taxes, other receipts etc.

- (ii) From the above table, it is seen that there is increase in tax collection in absolute terms in respect of TDS, advance tax, self-assessment tax (under the head pre-assessment) and regular assessment (under the head post-assessment).
- (iii) The comparatively lesser increase in respect of self-assessment tax is attributed to the fact that presently emphasis is to collect direct taxes during the financial year itself by way of advance tax, TDS, TCS etc. on the principle 'pay as you earn'. This is substantiated by the fact that TDS collection has increased from Rs. 104,741 crore in the financial year 2007-08 to Rs. 211,403 crore in the financial year 2010-11. Similarly, the collection from advance tax has increased from Rs. 158,121 crore to Rs. 182,311 crore during the same period. Overall pre-assessment collection has also shown growth rate of 16.31% and 21.68% during financial year 2009-10 and 2010-11 respectively as against overall growth in net collection at 13.23% and 18% respectively.
- (iv) It is submitted that the observations about post-assessment collection made by the Committee is in respect of sub-head 'others' only. The post-assessment collection consists of 'collection from regular assessment' and 'others'. It is evident from the table above that collection from regular assessment has been growing steadily. The growth rate of collection under the head 'regular' during post-recession period *i.e.* FY 2009-10 and 2010-11 was 55.94% and 33.73% respectively. Thus

the observations made by the Committee that the administrative resources deployed are not getting adequately reflected in the collection of post assessment taxes and other observations flowing there from are not borne out from these facts.

- (v) In respect of policy initiative to deal with issue of exorbitant demands/non-maintainable assessments, it is Stated that a scheme of Dispute Resolution Panel (DRP) was introduced by way of Legislative provisions of section 144C of the Income Tax Act, 1961 with effect from 01.04.2009. Under this scheme in case of eligible assessee, the demand is not raised till draft assessment order prepared by the Assessing Officer is examined and cleared by DRP after hearing the objection of the taxpayer. The DRP is a collegium of three Commissioners of Income Tax. It is expected that this measure would in long run lead to reduction in exorbitant demands being raised.

[Ministry of Finance (D/o Revenue) OM No. H-11013/5/2011-Parl.,
dated 27 September, 2011]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

- NIL -

NEW DELHI;
19 December, 2011

29 Agrahayana, 1933 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

ANNEXURE

MINUTES OF THE SEVENTH SITTING OF THE STANDING
COMMITTEE ON FINANCE (2011-12)

The Committee sat on Monday, the 19th December, 2011 from
1700 hrs. to 1800 hrs.

PRESENT

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Shri Bhakta Charan Das
3. Shri Nishikant Dubey
4. Shri Bhartruhari Mahtab
5. Shri Prem Das Rai
6. Shri Rayapati S. Rao
7. Shri Magunta Sreenivasulu Reddy
8. Dr. M. Thambidurai
9. Shri Shivkumar Udasi

Rajya Sabha

10. Shri Piyush Goyal

SECRETARIAT

1. Shri R.K. Jain — *Director*
2. Shri Ramkumar Suryanarayanan — *Deputy Secretary*
3. Smt. Meenakshi Sharma — *Deputy Secretary*

2. The Committee took up following draft Reports for consideration and adoption:—

- | | | | | | |
|-------|--|-----|-----|-----|-----|
| (i) | *** | *** | *** | *** | *** |
| (ii) | Draft Report on action taken by the Government on the recommendations contained in the Thirty-fourth Report (15th Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue); | | | | |
| (iii) | *** | *** | *** | *** | *** |
| (iv) | *** | *** | *** | *** | *** |
| (v) | *** | *** | *** | *** | *** |

3. The Committee adopted the draft reports at Sl. Nos. (ii) and (iv) without any modification and those at Sl. Nos. (i), (iii) and (v) with minor modifications. The Committee authorised the Chairman to finalise the Reports in the light of the modifications suggested and present these Reports to Parliament.

The Committee then adjourned.

APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE
RECOMMENDATIONS CONTAINED IN THE THIRTY-FOURTH
REPORT OF THE STANDING COMMITTEE ON FINANCE
(15TH LOK SABHA) ON DEMANDS FOR GRANTS
(2011-2012) OF THE MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

	Total	% of Total
(i) Total number of Recommendations	15	
(ii) Recommendations/Observations which have been accepted by the Government: (<i>Vide</i> Recommendations at Serial Nos. 1, 3, 6, 7, 8, 9, 10, 11, 12 13, 14 and 15)	12	80.00
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:	Nil	00.00
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee: (<i>Vide</i> Recommendations at Serial Nos. 2, 4 and 5)	03	20.00
(v) Recommendation/Observation in respect of which final reply of the Government is still awaited:	Nil	00.00